

Virtual Think Tank (ViTTa) Analysis



IRGC's Role in the Black Economy

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What is ViTTa?

NSI's Virtual Think Tank (ViTTa) provides rapid response to critical information needs by pulsing a global network of subject matter experts (SMEs) to generate a wide range of expert insight. In support of US Central Command (J3), ViTTa was used to address four questions regarding geopolitical stability in Iran. ViTTa reports are designed to provide highly customizable and compelling analyses, reports, and briefings that consider varied perspectives across disciplines, challenge assumptions, provide actionable insights, and highlight areas of convergence and divergence.

Question of Focus

[Q1] What is the extent of Islamic Revolutionary Guard Corps (IRGC) involvement in black (criminal) economic activity in Iran and internationally?

- a. How significant is the drug abuse problem in Iran currently?
- b. What is the population's knowledge of IRGC involvement in trafficking drugs, including through Iran?
- c. How much has IRGC trafficking contributed to Iran's drug abuse issues?
- d. What are the incentives and disincentives that would drive the Iranian government to renounce the transnational crime it currently sponsors (e.g., drug trafficking, weapons trafficking, human trafficking into Syria, etc.)?
- e. How much does the Iranian populace know about its government's role in international crime?

Subject Matter Expert Contributors

Mr. Eric Brewer (Center for Strategic and International Studies), **Prof. Anoush Ehteshami** (Durham University), **Mr. Ilan Goldenberg** (Center for New American Security), **Mr. Richard Nephew** (Columbia University), **Dr. Ariane Tabatabai** (German Marshall Fund of the United States), **Mr. Behnam Ben Taleblu** (Foundation for Defense of Democracies), **anonymous expert**

Caveat

The answer to the question of the extent of the IRGC's participation in the black economy is unknowable in the open source. This is particularly true when it comes to the illicit black economy. Experts cautioned that since the nature of the activities in question are covert, criminal, and clandestine, all responses are based on personal expertise, inference, and anecdotal observations.

All of the Benefit, None of the Blame

While official data do not exist, the informal (black) economy is estimated to be 35-44 percent of Iran's stated gross domestic product (GDP), or some 160-200 billion USD. With even less certainty, experts and other sources estimate that Iran's Islamic Revolutionary Guard Corps (IRGC) controls roughly a third of Iran's total economy (both formal and informal). The extent of the IRGC's involvement in the illicit black economy—comprised of drug, arms, alcohol, and other forms of smuggling—is unknown in the open source. Given that the questions driving this study were particularly focused on the IRGC's role in drug trafficking, experts reach three conclusions: 1) it cannot be assumed that the IRGC as an institution is involved in narcotrafficking, 2) the Iranian public does not blame the IRGC for Iran's opioid crisis, and 3) an information operations campaign could more effectively link the IRGC to Iran's devastating opioid epidemic.

Scale of the Black Economy in Iran

Measuring the black economy of any nation is extremely difficult. It bears defining key terms up front. All economic activity can be broken up into formal and informal. The formal economy is officially recognized, regulated, and recorded economic activity (Bragg, 2019). The informal economy is economic activity that falls

outside the regulated economy and tax system and can include grey (licit) and black (illicit) transactions (Alexander, 2019; Bragg, 2019). Recognizing that the informal economy is extremely hard to measure, the IMF developed a short-hand estimation: in developing countries, such as Iran,¹ the informal economy typically represents 35-44 percent of stated gross domestic product (GDP) (Schneider & Enste, 2002). Iran's informal economy could be even larger due to the prolonged and heavy sanctions it has endured (Ghasseminejad, 2015, Taleblu).

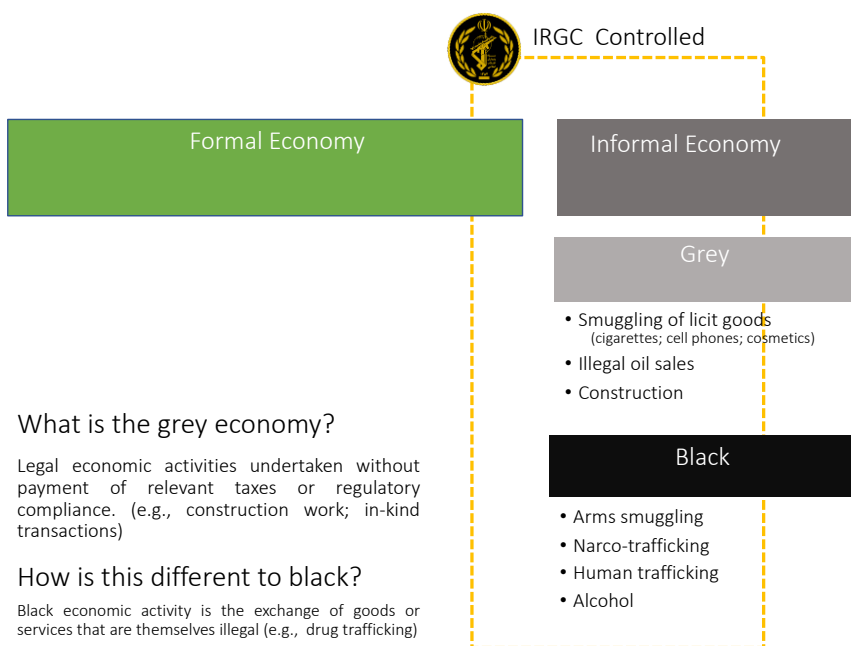


Figure 1. Distinguishing the Formal from the Informal Economy in Iran

The questions driving this report primarily explore the IRGC's role in the black economy. All experts consulted acknowledge that the IRGC is likely the biggest actor in the informal (both grey and black) economy. Mr. Behnam Ben Taleblu of Defense for Democracies estimates that the IRGC could account for 20-40 percent of total economic activity in Iran. The number could be even larger depending on how one counts IRGC-owned or -controlled businesses (Taleblu, Nephew). This report will explore what is known about the IRGC's role in drug trafficking including the extent of

¹ Iran is listed as a developing nation according to the [UN](#) (2019).

its known participation in the illicit activity, the degree to which the population blames the IRGC for Iran's opioid epidemic, and what can be done to disincentivize the IRGC's role in the black economy.

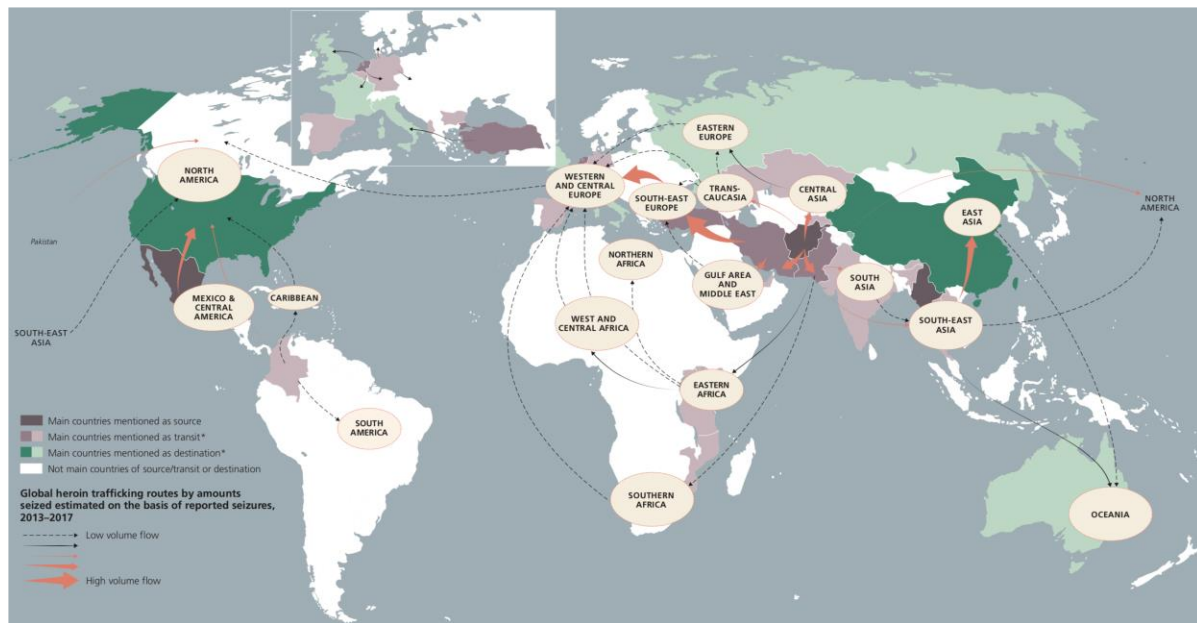
Narco trafficking in Iran

Iran shares a 572-mile border with Afghanistan, which supplies 85 percent of the world's opium (Hennigan, 2019). According to one estimate, Afghanistan produces up to 60 tons of heroin a year worth an estimated 13 billion USD (Duheume, 2017). Nearly one-third of Afghanistan's heroin flows into and through Iran (Felbab-Brown & Porter, 2019). While the US Department of Treasury has designated multiple individuals within Iran's IRGC Quds Force as drug traffickers, and while Lebanese Hezbollah and various pro-Iranian paramilitary (*Hashd*) groups in Iraq have been implicated in drug trafficking (Felbab-Brown & Porter, 2019), experts question whether that is sufficient evidence to indicate that the IRGC as an institution is directly involved in narco trafficking.

Iran's Position in the Global Heroin Trade: Destination as well as Passage

Given Iran's proximity to Afghanistan, it is no surprise that Iran has one of the highest opioid addiction rates in the world (Felbab-Brown & Porter, 2019). The United Nations Office on Drugs and Crime (UNODC) believes that 40 percent of the opium passing through Iran from Afghanistan remains in the country (Nima, 2019). If true, this makes drug abuse in Iran an enormous problem.

Approximately 2-3 million of Iran's 81 million citizens are estimated to be addicted to illicit drugs (Felbab-Brown & Porter, 2019; Dehghani & Amiri, 2016, Ehteshami). This is not a crisis that only affects the poor or disenfranchised (Dehghani & Amiri, 2016). Iran's Interior Ministry estimates that direct and indirect costs of addiction account for approximately USD\$3 billion per year (Ghasseminejad, 2015; Dehghani & Amiri, 2016)



Main heroin trafficking routes as described by reported by seizures, 2013–2017. Source: UNODC, World Drug Report 2019

Figure 2. Iran's Central Position in the Global Heroin Trade

Is the IRGC Directly Involved in Narco trafficking?

Given the caveat that each of the expert contributors expressed—that the answer to this question is unknowable in the open source—there is a nuance to their responses that deserves attention. IRGC officials are almost certainly involved on a large scale in the smuggling and distribution of opium and heroin from Afghanistan through Iran and on to Iraq, Turkey, and the rest of the world—although it is less clear that this is a sanctioned activity (Ehteshami, anonymous expert). Huge rents are collected from the heroin and opium trade by these officials, according to Prof. Anoush Ehteshami of Durham University.

However, experts disagree about whether the IRGC as an institution (not just opportunistic elements) is directly involved in the drug trade. Dr. Ariane Tabatabai of the German Marshall Fund points out that the IRGC is far from a monolithic organization, which suggests that some elements of the IRGC may be active in the drug trade while others are not. Mr. Eric Brewer of the Center for Strategic and International Studies (CSIS) cautions against looking at the IRGC primarily through the lens of a narco-trafficking organization. The IRGC is, of course, involved in some criminal enterprises. It is adept at moving money and acquiring goods abroad, honed by an extensive period in which Iran has been under sanctions and embargoes. However, Brewer believes that it remains primarily a professional military organization.

In this vein, Mr. Richard Nephew of Columbia University and an anonymous expert believe the IRGC's participation is likely to be indirect. Nephew believes that, like many organizations in Iran, there are likely "officers highly involved in narco-trafficking and an awful lot who are not." There are individual corps members using their positions to engage in narcotics trafficking because it is lucrative. One factor driving the participation of IRGC officers and units in the drug trade is certainly money; IRGC officers at the O5 and O6 level are not well remunerated, according to an anonymous expert. In fact, there is a common trope of retired IRGC officers working as taxi drivers to supplement their income. Anticipating a bleak financial future, and seeking to supplement their incomes, IRGC officers may be tempted to participate in illicit activities—including drug trafficking. IRGC top brass, on the other hand, are likely motivated by access to the finer things in life: apartments, investing money overseas, sending their kids to universities abroad, and travel, according to Ehteshami.

Narco-trafficking as a Way of Life Rooted in Iran's History

Since the beginning of the Republic, forces stationed along Iran's border with Afghanistan and Pakistan have participated in the illicit drug trade, according to an anonymous expert. Smuggling and other criminal activities are a core feature of the culture of many border regions across the world, and Iran's border with Afghanistan is no exception. Criminal and familial networks have been smuggling opium and heroin across the border for generations—during the time of the Shah and long before. IRGC units near the border inherited their role in drug trafficking from a long line of police and security forces in the region. This suggests that drug smuggling is a feature of the region—not necessarily of the institution overseeing the border.

The IRGC deepened its role in black economic activities in the 1980s with the advent of the Iran-Iraq War (1980-1988). Ever since the war "the IRGC has been as much an economic player as a security or political one," Nephew notes. "Anything the regime could do to make money, they did" an anonymous expert stated. At the same time, the Soviet-Afghan war simmered along Iran's eastern border. "It was very much the wild west out there, and there wasn't a lot of border security to be had," an anonymous expert noted. As the 1990s rolled around, the regime needed some form of economic relief. This is likely when the IRGC entered the black economy more significantly and with the implicit approval of the regime. However, it is unlikely that the black market economy became essential to Iran's financial stability until sanctions started to take hold between 2005-2007. In the last ten years, particularly under the current US administration, the IRGC came to rely on the black economy for revenue even more (anonymous

Estimated Value of Select Imported Licit & Illicit Goods

- Cigarettes: US\$3.6 billion
- **Drug trade: \$US3 billion**
- Cell phones: \$US2 billion
- Cosmetics: \$US1 billion

Figure 3. Source: *AI Monitor*, 2015.

expert). Decades of need for creative revenue streams has led the IRGC to become a major economic powerhouse with diversified funding streams (anonymous expert). Figure 3 above shows that in one assessment (keeping in mind that all figures of the size of the black economy are estimations), revenue from the domestic drug trade is smaller than trafficking in cigarettes, much less all other licit goods added together.

Population Sentiment: Does the Public Blame the IRGC for Iran's Opioid Epidemic?

Discerning whether the Iranian population believes that the IRGC is to blame for the opioid crisis is challenging in the absence of polling mechanisms. Anecdotally, several experts note that they could not recall a single conversation with an Iranian in which blame for Iran's drug crisis was assigned to the IRGC. This may suggest that, at least among certain elements of the Iranian population, this is not a common sentiment (Goldenberg, Tabatabai). Nephew and Tabatabai note that Iranians are certainly attuned to the fact that there is corruption in the security services, including the IRGC; most Iranians believe the government is corrupt and that IRGC officials are on the take from drug dealers and criminal organizations. But, like the other experts, neither believe that this has translated into a widespread sense in Iran that the IRGC is to blame for the opioid crisis. This belief is tinged with a fatalistic sense that there is corruption in every branch of government and very little that the average citizen can do about it (Nephew). Interestingly, Tabatabai notes that the population is more likely to implicate the IRGC for alcohol rather than drug smuggling.

Furthermore, Tabatabai argues that while the population may not blame the IRGC for its role in the drug crisis, it clearly blames the regime for the underlying factors—unemployment and lack of opportunity, a weak economy—that are driving young men in particular to seek drugs as a coping mechanism. The role that poor governance plays in exacerbating the opioid crisis is “quite clear” to the public, according to Tabatabai.

Whether or not social media is a good indicator of popular sentiment, Ehteshami acknowledges that there is a huge amount of concern expressed on social media about the ease in which narcotics enter and are being distributed in Iran. Social media posts complain about known traders not being arrested. A narrative that has become increasingly prevalent over the last 2-3 years, especially with the emergence of the youth resistance movement is that the regime is deliberately spreading heroine to pacify young people so that they are not able to protest against the government. “This could be a conspiracy theory, but whether it is or not, a lot of people believe it,” Ehteshami notes. He adds that there is a growing concern about the role that the regime and the IRGC are playing in narcotics distribution. Ehteshami also notes that aside from assigning blame for Iran's drug problem, there is resentment among the population that the black economy enables a total absence of accountability of funds—funds that could be used to alleviate poverty or for job creation.

How to Limit the IRGC's Role in the Illicit Black Economy

A subset of this question asks which incentives and disincentives could drive the Iranian government to renounce transnational crime it currently sponsors to include drug trafficking, weapons trafficking, human trafficking, etc. This response will address the drug trafficking aspect as that was discussed specifically with experts.

Incentives

There is a natural logic to the argument that lifting international sanctions would naturally reduce the IRGC's illicit involvement in otherwise *licit* economic activities. Specifically, if legitimate companies can import commodities like cell phones, washing machines, and luxury cars legally, this competition would reduce the need for the IRGC's black market role. However, Taleblu argues that an incentive policy to encourage Iranian leadership to reject the black economy will likely not work. In 2016, when Iran was removed from the UN's black list and the international community signaled that it wanted to see Iran reintegrated into the global economy, even with these heavy incentives Iran could not meet the requirements to stay off the black list. Iran benefited from a positive GDP boom during those years, but it was not enough to make the IRGC renounce or desist black market activities.

There are other reasons why incentives are not likely to entice the IRGC to give up its role in the black economy—primarily that its economic might allows it to wield influence and reward others. The IRGC's role in the black economy has grown enormously in the last decade and could be said to have benefited from sanctions, according to Mr. Ilan Goldenberg of the Center for a New American Security. To some extent, the IRGC gains more when Iran is economically isolated and under pressure because it allows them to corner more of the market. Control over the black economy is a major way that the IRGC wields influence and rewards people. Lifting sanctions and the increased competition that would ensue, could harm the IRGC's influence. Furthermore, any financially-based incentive program will likely end up lining the pockets of those in power instead of resulting in the opening of the licit economy (Taleblu).

Disincentives

The regime is unlikely to go along with or enforce internationally imposed disincentives that would limit the IRGC's role in the black economy. As the IRGC has become more ingrained in the formal and informal economy of Iran, its importance for regime stability has increased. As Taleblu concludes:

When you put these pieces together—the drug trade, illicit revenue generation, [and] ... money laundering—all of this together allows the IRGC to really show its value to the Supreme Leader because it is the entity generating revenue through illicit financial activities at home and abroad to help the regime outlast maximum pressure penalties.

Ehteshami agrees that the IRGC's economic activities largely support regime stability. It gives the regime access to revenue it needs domestically and to support activities abroad including support for the Syrian regime and *Hashd* forces in Iraq and across the region. Taleblu expects that the IRGC will likely continue to expand its influence on the economy, which will also increase its value, particularly in the eyes of the Supreme Leader. This makes it likely that little would drive the government to renounce the IRGC's role in drug trafficking—as it is a source of revenue for the cash-strapped regime.

What Option Does That Leave?

If externally imposed incentives and disincentives are likely to fail in reducing the IRGC's role in the black economy, what options are left to USCENTCOM or other organizations particularly interested in curtailing the IRGC's role in drug trafficking? One option that remains is an information operations campaign to highlight the IRGC's role in the illicit black economy among the Iranian population who might not be entirely aware of its

activities (Goldenberg). This could be an effective messaging campaign because there is a lot of sensitivity to the question of opioid addiction in Iran as a domestic issue. It might embarrass the IRGC enough to get it to change its behavior somewhat, but it is not clear such a campaign would work. The IRGC has not shown itself to be very responsive to public opinion. Furthermore, if the messages are traced to the American government, they will be met with deep cynicism and skepticism from most Iranians. However, Goldenberg concludes that this may be the most productive way forward.

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